

# Office of the City Auditor City of San Diego

## **Performance Audit of the San Diego Police Department's Permits and Licensing Unit**

**Improvements To Regulatory Policies and Departmental  
Procedures For Determining Fees And Issuing Permits Could  
Enhance Public Safety While Reducing City Costs**

Presentation to the Audit Committee  
November 7, 2011



Independent • Objective • Accurate

# Background

## Permits and Licensing Unit

### Mission:

- SDPD established a Permits and Licensing Unit to enforce City regulations with the mission to

*“...uncover and prevent illegal activity from occurring in those businesses or occupations that have the propensity for such activity.”*

- SDPD enforces City regulations by requiring police-regulated businesses to obtain annual police permits as a prerequisite to operate in San Diego.\*

### Operations:

- SDPD classifies police-regulated businesses into 33 permit types. Between fiscal years 2008 and 2010, it issued about 77,000 permits, amounting to nearly \$10 million in total revenue.

# Background

## Permits and Licensing Unit

- SDPD reviews permit applications for appropriate requirements—such as application and regulatory fees and submission of business records—and conducts background criminal checks of principal individuals before issuing permits.
- SDPD conducts enforcement inspections of businesses to ensure compliance with regulatory requirements.
- Permits and Licensing Unit collaborates with Vice Operations, which conducts both overt and covert inspections of certain regulated businesses.

# Scope and Methodology

- Assessed the following:
  - ♦ Do current services adequately protect the public?
  - ♦ Are services being delivered as effectively as possible?
  - ♦ Are permits and other transactions being processed effectively and efficiently?
- Reviewed the following:
  - ♦ Laws, policies, and regulations related to police-regulated businesses and occupations;
  - ♦ Financial information in City accounting systems and departmental records;
  - ♦ SDPD police permits for adult entertainers, entertainment establishments, firearms and tobacco retailers, massage therapists and businesses, and pawn shops; and
  - ♦ Business tax certificate information in City Treasurer systems;
- Met with and/or interviewed:
  - ♦ SDPD Fiscal Management, Permits and Licensing Unit, Vice Operations, and Records Management
  - ♦ Key staff reviewing permit applications, issuing permits, conducting enforcement inspections, and administering permit and financial systems
  - ♦ Other City department officials
  - ♦ Other jurisdictions

# Finding 1

## **SDPD Can Enhance Public Safety by Developing a More Systematic Way to Assess Which Activities Warrant Regulation through Permits and Monitoring**

### **➤ Effective Protection of Public Safety Involves Partnership between the Department and City Council**

- SDPD reviews of permits and licensing public safety risks fall short of providing the City Council with information needed to systematically assess (1) whether the right activities are being regulated and (2) whether the existing level of regulation is working effectively.
- For example, the SDPD appears to not have considered the National Foundation to Prevent Child Sexual Abuse's recommendation to conduct criminal background checks on caregivers with access to children, the elderly, or the disabled.
- Similarly, the City may need to revise existing massage therapist regulations because the State of California recently repealed certain regulations that designated local governments as the sole entity to enact permits and licensing requirements.

# Finding 1

## **SDPD Can Enhance Public Safety by Developing a More Systematic Way to Assess Which Activities Warrant Regulation through Permits and Monitoring**

### **➤ Recommendation 1:**

**The San Diego Police Department should conduct annual reviews of police-regulated activities to assess the effectiveness of current regulations and identify emerging issues to bring to the City Council's attention.**

# Finding 2

## **SDPD Can Enhance Effectiveness of Monitoring Efforts by Better Assessing How Services Are Delivered and Fees Are Set**

- **Difficult to show the benefits and activities performed based on the fees paid**
  - ♦ SDPD's cost recovery model was last updated in 2009 and based on civilian staff performing enforcement inspections.
  - ♦ In fiscal year 2010 budget reductions, SDPD reduced staffing from ten civilians to five sworn officers.
  - ♦ As a result, SDPD reduced enforcement inspection hours, but maintained or increased permit fees to pay for more expensive sworn personnel.

# Finding 2

## **SDPD Can Enhance Effectiveness of Monitoring Efforts by Better Assessing How Services Are Delivered and Fees Are Set**

### **➤ Analysis of Alarm Fees Shows Operations and Cost Recovery Issues Are Intertwined**

- ♦ The City's alarm program resulted in permit holders paying for false alarms they did not generate.
- ♦ In fiscal year 2010, 38,774 of 40,654 (95 percent) of all alarm calls responded by police were false – one alarm company generated about 9,500 false alarm calls at \$1 million in cost.
- ♦ Only about \$186,500 (7 percent) of \$2.8 million in revenue came from false alarm revocation penalties.
- ♦ About 33 percent of all alarm calls were initiated by alarm systems that were not covered by permits, amounting to \$1.4 million in costs.



# Finding 2

## **SDPD Can Enhance Effectiveness of Monitoring Efforts by Better Assessing How Services Are Delivered and Fees Are Set**

### **➤ Program Effectiveness Also Impacted by Staffing, Training, and Performance Measurement Issues**

- ♦ In fiscal year 2010 budget reductions, SDPD reduced staffing from ten civilians to five sworn officers.
- ♦ SDPD has not conducted an analysis to identify the type and level of enforcement inspection services needed to accomplish its mission and the tradeoffs between using sworn or civilian staff.
- ♦ SDPD does not provide formalized training to officers to ensure they execute their responsibilities appropriately and consistently with regulatory requirements.
- ♦ SDPD does not collect performance measures to evaluate and enhance public safety.

# Finding 2

## **SDPD Can Enhance Effectiveness of Monitoring Efforts by Better Assessing How Services Are Delivered and Fees Are Set**

### **➤ Recommendations:**

- The San Diego Police Department should determine its operational needs to achieve its mission, adjust enforcement activities and staffing to achieve its goals, revise its fees to reflect operational conditions, and establish training and performance metrics.**
- To address alarm issues, the San Diego Police Department should work with the City Attorney's office to revise the SDMC, revise departmental systems to facilitate the permitting process, reduce false alarms, and associated costs.**

# Finding 3

## **Improvements Are Needed to Ensure Effective Processing of Permit Applications and Revenues**

- **SDPD is having difficulty keeping accurate and consistent records of revenues collected.**
- **Some businesses are allowed to operate for a period of time without permits.**
- **Permits are issued without completing required background checks.**
- **Fines and penalties are frequently not assessed, resulting in approximately \$300,000 of lost revenue in fiscal year 2010.**
- **Processing of pawn shop sales records is falling behind and is not in compliance with State law.**

# Finding 3

## **SDPD Can Enhance Effectiveness of Monitoring Efforts by Better Assessing How Services Are Delivered and Fees Are Set**

### **➤ Recommendations:**

**The San Diego Police Department should ensure permits fees and fines are properly collected, permits and revenues accurately tracked, the administrative functions integrated within the Office of the City Treasurer, and that staff obtain appropriate guidance for and oversight of permit reviews.**

**Additionally, the department should ensure that background checks are completed in accordance with City regulations and pawn shop sales records reported in compliance with State laws.**

# Recommendations

- We made a total of **15 recommendations**.
- The City Administration agreed with 10 recommendations and partially agreed with 5 recommendations.